

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2021-324-WS

IN RE: Application of Kiawah Island Utility,)
Inc. to File Proposed Changes in Rates,)
Charges, Classifications and/or)
Regulations for Water and Sewer)
Service.)

**SETTLEMENT
TESTIMONY
OF
CRAIG SORENSEN**

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Craig Sorensen.

3 **Q. DID YOU FILE DIRECT AND REBUTTAL TESTIMONY IN THIS**
4 **DOCKET?**

5 A. Yes.

6 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN**
7 **THIS PROCEEDING?**

8 A. The purpose of my Settlement Testimony is to support the Settlement Agreement
9 reached in this Docket on behalf of Kiawah Island Utility, Inc. ("KIU"). I have
10 attached a copy of the Settlement Agreement as Exhibit 1 to my Settlement
11 Testimony.

12 **Q. PLEASE EXPLAIN THE SETTLEMENT AGREEMENT.**

13 A. After lengthy negotiations facilitated by the Office of Regulatory Staff ("ORS"),
14 the parties have reached a comprehensive settlement resolving all issues among the
15 signatories to the Settlement Agreement. Because KIU works collaboratively with
16 the Town of Kiawah Island, I am gratified that it has joined the Settlement
17 Agreement. Also, while not a party to the settlement, the Department of Consumer

1 Affairs does not object to its terms.

2 Principally, the settling parties agree that KIU should be entitled to an
3 adjustment in rates and charges sufficient to generate additional revenues of
4 \$555,000 based on the test year revenues after agreed-upon adjustments. The
5 agreed-upon adjustments are more particularly set forth in Exhibit “1” to the Settlement
6 Agreement. The revenue requirement will also be adjusted to include rate case
7 expenses incurred through the date of the hearing and verified by ORS.

8 As a part of the settlement, the parties agree to set KIU’s rates in this case,
9 and in its next general rate case, according to the return-on-rate-base method. In
10 this docket, the rates will be established based on an 8.69% return on common
11 equity (“ROE”), KIU’s actual cost of debt of 4.57%, and a capital structure that
12 includes 46.81% debt and 53.19% equity.

13 The rates resulting from the Settlement Agreement are designed to recover
14 KIU’s revenue requirement in an equitable and reasonable manner. In addition,
15 they are appropriate for KIU based on its record of improvements in customer
16 service, operational efficiency, and financial stability.

17 KIU has agreed not to file a general rate case sooner than eighteen (18) months
18 from the date of issuance of the final order in this case unless there are unforeseen
19 extraordinary economic or financial conditions. As a result, the next rate increase
20 cannot take effect earlier than twenty-four (24) months from the date of the final order
21 in this case. The “stay-out” provision does not apply to pass-through increases for
22 the cost of purchased water.
23

1 **Q. HOW DOES THE SETTLEMENT AGREEMENT ADDRESS KIU'S COSTS**
2 **RELATED TO THE SECONDARY PIPELINE?**

3 A. In its application, KIU requested recovery of approximately \$2.4 million paid to settle
4 its contractor's claim for the expense of a second drill that was required to run a
5 secondary water supply line to Kiawah Island. In the Settlement Agreement, KIU has
6 agreed not to include the requested amount in rate base. Instead, KIU will establish a
7 regulatory asset of \$1.8 million dollars to be amortized over 30 years. KIU will earn
8 no return on the regulatory asset.

9 **Q. WHAT IS THE RATE IMPACT OF THE SETTLEMENT AGREEMENT ON**
10 **KIU'S AVERAGE RESIDENTIAL CUSTOMER?**

11 A. Understanding that KIU intends to submit additional rate case expenses for recovery
12 through the date of the hearing, a summary of the bill impact as of today for an average
13 residential customer with a 5/8" meter using 11,000 gallons per month will see a
14 monthly increase of approximately \$5.83, while customers will not see any change to
15 their sewer rates. For context, based on KIU's application, a residential water customer
16 using 11,000 gallons per month would have seen a monthly increase of approximately
17 \$8.31, and a residential sewer customer using 11,000 gallons of water would have seen
18 an increase of approximately \$3.49.

19 **Q. WHAT ARE THE OTHER SIGNIFICANT TERMS OF THIS SETTLEMENT**
20 **AGREEMENT?**

21 A. The parties have also agreed KIU will
22 • adopt the rate design recommended by ORS's expert witness, Glenn Watkins,
23 • conduct a Lead-Lag study, to be filed in the company's next rate case, to inform the

determination of appropriate working capital for the utility,

- remove 50% of the salary, benefits, and taxes for SouthWest Water Company's two highest compensated executives from its allowable share of overhead in this case,
- reduce recovery of overhead expenses for SouthWest Water's Corporate Development to 25% of its allowable share in this case,
- amortize rate case expenses over two years,
- include its test year revenues of \$39,551 for fire hydrant service, and
- retain a third-party consultant to conduct a Shared Service Study of the contract and shared services provided to KIU from SWWC, SWWC affiliates, and its Corporate Shared Services business unit during the test year for its next rate case, to determine whether the charges for these services are reasonable and necessary.

Q. IS THE SETTLEMENT AGREEMENT IN THE PUBLIC INTEREST?

A. Yes. The terms of the Settlement Agreement are a fair and reasonable resolution to the Parties' issues in this proceeding and is in the public interest, and I urge the Commission to approve it. The settlement represents a fair compromise of vigorously contested issues. Each party gave ground to avoid the uncertainty and expense of litigating these issues.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.